

1 **DIRECT TESTIMONY OF**

2 **J. DARRIN KAHL**

3 **ON BEHALF OF**

4 **SOUTH CAROLINA ELECTRIC & GAS COMPANY**

5 **DOCKET NO. 2009-2-E**

6  
7 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

8 A. My name is J. Darrin Kahl, and my business address is 1426 Main Street,  
9 Columbia, South Carolina.

10 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT POSITION?**

11 A. I am employed by SCANA Services, Inc. ("SCANA Services") as  
12 Manager, Supply and Gas Operations.

13 **Q. PLEASE DESCRIBE YOUR DUTIES IN YOUR CURRENT POSITION.**

14 A. In regard to this docket, I am responsible for gas supply, capacity and  
15 purchasing, functions for the gas-fired generating facilities operated by South  
16 Carolina Electric and Gas ("SCE&G"). These responsibilities include procurement  
17 of gas supply and capacity, nominations and scheduling.

18 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**  
19 **WORK EXPERIENCE.**

20 A. I graduated from the University of South Carolina in 1991 with a Bachelor  
21 of Science degree in Accounting. Following graduation, I accepted a full time staff

1 accountant position with an electronic security services company where, from  
2 1991 until 1997, I held various roles within the accounting areas of audit,  
3 information technology, and financial reporting. I concluded my tenure with the  
4 company as Supervisor of Accounting and, in 1997, I joined SCANA Energy  
5 Marketing, Inc. ("SEMI") as an Energy Services Coordinator performing a variety  
6 of job functions, including tariff analysis, gas supply procurement and scheduling.  
7 In 1999, I assumed the role of Transportation Coordinator which included  
8 intrastate and interstate pipeline scheduling, producer services, and gas supply  
9 procurement. In 2002, I accepted the position of Supervisor of Scheduling with  
10 SCANA Services where my responsibilities included supervising a team of  
11 employees who conducted nominations, scheduling, and balancing on interstate  
12 pipelines for all of the SCANA gas subsidiaries. From 2003 through 2007, I  
13 assumed the position of Manager of Operations & Gas Accounting, where I was  
14 responsible for the day to day operations of gas scheduling on interstate pipelines  
15 and gas accounting. Currently, I am the Manager of Supply and Gas Operations  
16 with SCANA Services, where I manage a team of employees responsible for  
17 natural gas procurement, transportation, and scheduling and balancing.

18 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE ANY REGULATORY**  
19 **COMMISSION?**

20 A. Yes, I testified before the Georgia Public Service Commission in 2007.

1 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**  
2 **PROCEEDING?**

3 A. The purpose of my direct testimony is to provide an overview of the natural  
4 gas purchasing process for SCE&G generation and to discuss natural gas prices  
5 and forecast during the current period.

6 **Q. PLEASE PROVIDE AN OVERVIEW OF HOW YOUR DEPARTMENT**  
7 **MAKES PURCHASING DECISIONS.**

8 A. The gas purchases made by the Gas Supply and Capacity Management  
9 Department (“Department”) are driven by the needs of the electric generation  
10 group. Part of what we supply SCE&G’s Economic Resource Commitment Group  
11 (“ERC”) is current market information that can be used in running resource  
12 commitment models for our electric generation plants. The ERC requests gas  
13 price quotes and market information from the Department on a continual basis.  
14 The ERC uses current gas prices as inputs into their dispatch models to determine  
15 the most economic means of supplying electric needs.

16 The actual gas purchasing decisions are driven by the unit commitment  
17 decisions made by the ERC. Once the decision is made that natural gas is the  
18 economical choice for providing reliable power to our customers, our Department  
19 is directed to purchase gas supplies for delivery with a stated term and volume at  
20 the best available current market prices.

1 **Q. ARE YOUR CONTRACTS TO PURCHASE GAS NORMALLY SHORT-**  
2 **TERM OR LONG-TERM?**

3 A. We have standing industry standard contracts with a group of suppliers that  
4 set forth many of the terms and conditions of delivery. Price and quantity,  
5 however, are determined at the time of purchase because the purchase of gas  
6 supplies for electric generation is generally made within hours of the need to burn  
7 the gas to generate electricity. The purchase is a short-term transaction that must  
8 be completed using current pricing for natural gas in the market.

9 The most common prices quoted for daily gas deliveries are the day ahead  
10 gas price. The Gas Daily Average or GDA, for example, is an average of these  
11 day ahead prices, reported on a historical basis the next business day.

12 The day ahead gas market, however, closes at mid-day of the day before the  
13 gas is delivered; therefore, GDA prices are not available for some electric supply  
14 purchases since unit commitment decisions are not made until the next morning.  
15 Instead, the gas we purchase for electric generation is frequently made in the  
16 intraday market.

17 **Q. WHAT TOOLS DO YOU USE TO INFORM YOUR PURCHASING**  
18 **DECISIONS?**

19 A. The most important tools that we use are the Department's collective  
20 experience in national natural gas markets, careful observation and evaluation of  
21 movements in market-based prices, and continual surveys of our long-time

1 suppliers for pricing information. These tools are by far the most important and  
2 most accurate in assisting us to determine market-based prices for natural gas  
3 supplies being purchased on the “spot market.”

4 Another tool used in the industry is a publication known as *Platt’s Gas*  
5 *Daily*. This historic publication provides highs, lows, and averages for daily  
6 prices based upon surveys conducted by the publisher, the McGraw-Hill  
7 Company, of marketers, producers, suppliers, and purchasers. As the name  
8 implies, this publication is received daily and provides information about the  
9 previous day’s prices and volumes at various production points and transportation  
10 zones.

11 In addition, we also use the Intercontinental Exchange (“ICE”), to inform  
12 our purchasing decisions, which is a real time electronic trading board. The  
13 shortcoming of the ICE and *Gas Daily* is that not all trades are reflected in these  
14 services.

15 **Q. HOW DO GAS DAILY AND ICE COMPARE WITH THE NEW YORK**  
16 **MERCHANTILE EXCHANGE (“NYMEX”)?**

17 A. The services provide entirely different information. NYMEX is a financial  
18 market, which captures real-time trading data and information about the projected  
19 price of natural gas and other commodities at various times in the future – for  
20 example, one month, three months, six months, a year or longer. Because the  
21 Department enters the market to buy the physical commodity and not financial

1 instruments and because we typically buy natural gas for shorter periods, the  
2 NYMEX market is primarily used by the Department to observe projected trends  
3 over the ensuing month or months and does not otherwise influence our  
4 purchasing decisions.

5 **Q. DOES NYMEX PRICING EVER AFFECT YOUR DECISION WHETHER**  
6 **TO PURCHASE NATURAL GAS FOR EITHER THE URQUHART**  
7 **COMBINED CYCLE UNITS OR THE JASPER FACILITY?**

8 A. We use NYMEX pricing data infrequently for calculating a benchmark  
9 relative to gas supply to either Urquhart or Jasper. Since these units are  
10 intermediate turbines, the ERC decides whether to operate these facilities based  
11 upon the daily demands of SCE&G's customers and its system. Consequently,  
12 most of the gas purchasing decisions for these plants are short-term, that is, for a  
13 day at a time or across a weekend or holiday period.

14 **Q. WHAT TRANSPORTATION CAPACITY DOES SCE&G HAVE FOR THE**  
15 **URQUHART COMBINED CYCLE UNITS AND THE JASPER FACILITY?**

16 A. SCE&G has a long-term capacity contract with Southern Natural Gas  
17 Company for firm transportation service of 51,050 dekatherms per day to serve  
18 Urquhart. The Department, as requested by the ERC, procures the natural gas  
19 needed to supply Urquhart. We have in excess of 20 different suppliers that we  
20 survey at various times to secure our gas supplies at market-based rates and from  
21 entities that have proven themselves to be creditworthy and reliable.

1           For Jasper, SCE&G has contracted with SEMI for firm gas capacity of  
2           120,000 dekatherms per day. SEMI supplies this service when needed, which  
3           consists of transportation and gas supply.

4   **Q.   PLEASE DESCRIBE THE MOVEMENT OF NATURAL GAS PRICES**  
5   **DURING THE CURRENT PERIOD UNDER REVIEW.**

6   A.           With regards to natural gas prices, a cold January 2008 initiated a rally in  
7           the market moving prices from \$7.50 per dekatherm on the first trading day of the  
8           year to a high of \$10.29 per dekatherm in mid-March. In addition to weather, the  
9           increase in prices during the first quarter resulted from below average  
10          underground storage levels. At the end of the winter period in March 2008, overall  
11          U.S. storage levels had been depleted to a higher degree than in the past year.  
12          Analysts began forecasting the need for increased storage injections to meet the  
13          upcoming winter needs and cast doubt on whether the market could refill storage  
14          to the 2007-2008 level. Thus, pressure increased on prices in the near term due to  
15          expectations that storage holders would begin immediate injections. Additionally,  
16          U.S. natural gas supply expectations were not being met due to a decline in  
17          Canadian imports coupled with liquefied natural gas (“LNG”) cargoes being  
18          routed to Europe and Asia due to higher values in those markets when compared  
19          to the U.S. market. The market projections indicated an above normal hurricane  
20          season and warmer than normal summer temperature which therefore increased  
21          the concern of supply availability in the market.

1           In early June, the Southeast experienced unseasonably high temperatures  
2 (fifty percent above the thirty year cooling degree day average) which continued to  
3 drive natural gas prices upward. As a result, the demand for natural gas for  
4 electric generation increased while national storage levels dropped below the five  
5 year average. Natural gas prices continued to rise during the second quarter  
6 culminating with an all time summer high of \$13.69 per dekatherm on July 2,  
7 2008. Oil prices also continued to climb, reaching an all time high of \$147.27 per  
8 barrel on July 11, 2008.

9           The U.S. dollar began to strengthen in the third quarter while crude oil and  
10 natural gas prices declined. This strength continued throughout the fourth quarter  
11 and the market continued to experience a decline in crude oil and natural gas. See  
12 Exhibit No.\_\_\_\_ (JDK-1). New unconventional shale supplies came online at the  
13 end of the second quarter from the East Texas/Arkansas area which supplemented  
14 the LNG deficit due to continuing high prices in Europe and Asia leading to a  
15 significantly diminished storage deficit as compared to 2007. As the Gulf  
16 recovered from Gustav and Ike the market made significant efforts to close the  
17 storage gap. However, because last fall's ending storage balance set new records,  
18 a small deviation from last year's levels would prove to be a non event, especially  
19 in light of the increased flowing supply available to replace it. The third quarter  
20 ended with prices in the low \$7.00 range



1           In the fourth quarter, the overall state of the U. S. economy continued a  
2           downward trend on the news of financial institutions, e.g., Lehman Brothers,  
3           announcing troubles and some companies asking for federal government bailouts.  
4           The market also began to take notice of the diminishing demand from the  
5           industrial sector which represents an estimated 1/3 of natural gas consumption. As  
6           the financial world was working through its issues, the natural gas pipelines were  
7           gradually rebuilding their hurricane damaged systems in an effort to bring supply  
8           volumes back to pre-Gustav and Ike levels. Although additional work needs to be  
9           completed, the combination of a slowing economy along with more supply and  
10          less demand put less pressure in the marketplace for natural gas thus pushing  
11          prices lower towards September 2007 prices ranging around \$6.20.

12          With the injection season coming to a close at the end of October, on the  
13          national level we continued to see warmer than normal temperatures on average  
14          which helped storages reach close to the year-on-year average while surpassing  
15          the 5-year average. This information continued to play a part in pushing the  
16          market with lower prices during the early part of the winter season.

17          The review period (February 1, 2008 – December 31, 2008) saw an average  
18          Southern Natural Gas Pipeline reported Gas Daily Average spot price of \$8.97  
19          while closing the year out at \$5.72. See Exhibit No.\_\_(JDK-2). Overall the  
20          supply picture was strong for the review period, especially with the increasing

1 domestic shale production, while the demand side suffered due to poor economic  
2 conditions especially in the third and fourth quarters of 2008.

3 As of the filing of this testimony, we continue to watch the reports on the  
4 state of the economy. Natural gas prices in the futures market are currently trading  
5 below \$4.50.

6 As the Commission is aware, a forecast is simply an estimate at a point in  
7 time based on the anticipation of future conditions. The near term forecast is for  
8 prices to remain fairly flat while the opportunity to move up is far greater due to  
9 fundamental factors such as weather and pipeline operations. However, the  
10 opportunity for prices to move lower also exists if the conditions are sustained  
11 with current supply levels and a slumping economy. For the longer term, prices  
12 are expected to gain momentum if the economy begins to turnaround.

13 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

14 **A.** Yes.